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CENTRAL INTELLIGENCE AGENCY  
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COUNTRY Brazil

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Affect Foreign Trade

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1. The number one problem which was preoccupying Brazilians at all social levels was settled on May 1st when President Getulio Vargas announced to the nation his approval, and enactment into law, of the new minimum wage scales for Brazil. Several days prior to his speech the newspapers throughout the country wrote numerous and voluminous editorials supporting their individual views as to the amount of increase he should grant the workers. The greater majority of them favored a figure under Cr \$2,000.00 a month, but a few felt that up to Cr \$2,000.00 would be just and while not satisfying either labor or capital would not on the other hand cause too much dissension in the ranks of either. It was, therefore, somewhat of a surprise to a great many, - including quite a few workers who despite their support of the maximum really expected a compromise, - that he accepted unconditionally the recommendations of his former Minister of Labor, João Goulart, and agreed to an average increase of 100% in the basic wage which for Rio was Cr \$1,200.00 but is now Cr \$2,400.00. Percentages of the increase varied with the locale and circumstances prevailing, but as a whole it worked out to double the former pay; in some cases more. The sweeping pay increase will not go into effect until 60 days after publication, or early July.

The immediate reaction to it has been very strong and highly critical from all employers and even some Government quarters, especially those concerned with the ever rising cost of living and the balancing of the Unions' revenues and expenditures. In industry and government - which is also effected by the decree - the minimum wage is paid to the most menial and unskilled employees as a starting point beyond which - strange as it may seem - a great many never progress for the simple reason that if they were more able in the first place they could demand and get a higher wage. These low-producing people, therefore, will not be able to offset their carrying costs by more productivity and that they receive will stand

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as a fixed increase in cost which can only be absorbed by consumers in the form of higher prices for the products or fields they work in. The necessity to increase wages, however, will not stop with the minimum salary workers because the increase has raised them, and in some cases brought them beyond the salary level of their immediate betters who were averaging about Cr \$2,000.00 for semi-skilled labor. Needless to say an adjustment will be demanded by the other workers who using as a basis their individual utility will want to keep the same salary distance between themselves and their less skilled brothers. The Ministry of Finance has estimated that the new wage levels - for the Government alone - will increase the Federal budget by Cr \$18 billion. It is not possible to estimate what it will mean to industry as they have the means to mitigate it somewhat by reorganizing their workers and eliminating many non-producers and/or discontinuing the activities they heretofore engaged in. No matter what is done, however, the measure does not halt inflation, but to the contrary necessitates increased revenues for Government thru new taxes, and higher prices to industry for their product.

2. Credit Restrictions were enforced by the Banco do Brasil on the eve of the President's speech in an effort to stay the inflationary tendencies which might result from his announcements. For the most part these involved the increase of the rediscount rate by the Banco do Brasil to 8% and the raising of the obligatory deposit with them of cash deposits from 4 to 6%. Since the advent of the new exchange and import license system which has drained considerable cash from the banks, all banks have had to more and more resort to their right to rediscount, and the new rate of 8% as compared with 1 1/2% in the USA should give a fair idea as to how much short term money is worth in Brazil nowadays: average of 12% per year plus "charges and commissions".
3. Short Term Treasury Bills have been sold in large quantities by the Banco do Brasil in denominations of Cr \$100,000.00 upward for 120 and 180 days on the basis of 6%, but with payment of interest in advance IN DOLLARS at an arbitrary rate of Cr \$25.00. These dollar checks can be legally negotiated in the Free Market for more than twice the amount of money they represent in Cruzeiros. This has attracted a great deal of idle private capital and further impoverished the banks of cash deposits. The reason for this measure was given as being necessary to acquire large sums of specie for internal purposes without resorting to the issuance of new money.
4. Auction Dollars continue to be taken up, but at slightly lower prices than in the past, and this despite the fact that the last few auctions were for prompt delivery. Several factors are contributing to this easing of premiums for American imports and they range from the widespread lack of cash with which to make the premium deposits, to the seeking by buyers of products in other world markets whose currency can be bought cheaper than dollars. A typical example of such transactions is one involving the sale of goods by Germany - whose currency is almost competing in cost with US dollars because many importers bid it up when it was costing less - to a Brazilian firm for shipment thru an Italian port against Italian dollars which cost less than the corresponding amount in German convention dollars.
5. Stocks of imported goods seem to be arriving in greater proportion than the rhythm of their current sale and consumption. Local buyers have no difficulty in finding supplies of almost all their needs, but importer sellers are not finding ready buyers with the same ease they did a little while ago.

President Souza Dantas is presently in the US visiting US Government officials and bankers in Washington. It is believed that during this trip he will principally discuss the status of the several loans outstanding to Brazil which are due to start amortizing this year and that the result will be a re-adjustment of terms to better suit Brazil's present economy.

Trade agreements are being worked out with several Iron Curtain countries. One with East Germany involves an even exchange of US\$90 million of their respective products. Also under consideration is an agreement with Yugoslavia whose representatives are presently here discussing terms. Another has been made with Hungary calling for the exchange of US\$40 million of goods.

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6. Industrial Expansion and new plant installation has almost disappeared from the news since the new exchange system has been ineffect, and the reason, of course, is the exceptionally higher costs for such endeavors now that heavy premiums must be paid for all importations. Some exceptions, however, are Ford and General Motors who have recently reaffirmed their intentions to eventually build a truck completely made in Brazil. Another is RCA Victor who have just announced plans to build a plant capable of producing six million radio tubes annually and which it is said will cost US\$1,5000,000.00.

Congestion at Rio and Santos may result from the piling up of imports in the warehouses at both cities due to the refusal of many importers to pick up their consignments until a more favorable decision is made by the Treasury Department on the application of Excise Taxes - amounting to 8% - to the "agio" deposits they make for import licenses. One department of the Government has ruled that the tax only applies to the basic CIF costs of imports; but another branch claims that it applies to total cost. So far this impasse has resulted in some delay in receiving vessels alongside and will undoubtedly cause more if a final decision is not made soon.

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